

Statement of Purpose Guidance Document

August 2019

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The statement of purpose campaign urges companies to issue a statement of purpose to ensure better, more transparent and more socially responsible corporate governance. The statement is a simple one-page declaration, issued by a company's board of directors, that clearly articulates the company's purpose and how to harmonise commercial success with social accountability and responsibility. It specifies within that purpose the few stakeholders most critical to long-term value creation and sustainability. This requires the board to recognise and be transparent about its most significant stakeholders. Finally, the board needs to identify the time frames the company uses in evaluating its strategy and long-term capital allocation choices. A 10-year value creation and sustainability horizon is very different from a one-year horizon. The board, entrusted with the interests of the corporation, should determine this time horizon and then disclose it.

The most common objection to a board-issued statement of purpose is based on a misconception that the fiduciary duty of directors is only to shareholders. Our research in 34 countries finds that that this perception is misplaced. We find that, for a publicly held corporation, director duty is to the long-term interest of the corporation itself. A corporation is a separate legal entity that can survive many generations. Shareholder value is not the objective of the corporation; it is an outcome of the corporation's activities. While shareholders entrust their stakes in a corporation to the board of directors, shareholders are just one important stakeholder among many that the board may consider when making decisions in the best interest of the corporation. Identifying the most important stakeholders is squarely within director fiduciary duty. The statement is a clear, strong and legally proper way for the board to articulate the company's purpose, under the board's duties of care and loyalty to the corporation.

By issuing the statement and by defining corporate purpose, the board is saying that purpose should transcend present corporate personalities and be grounded in more permanent values. Following the guidance from the board-issued statement, management will then determine strategy, which issues are material, and the appropriate metrics for reporting on them.

By embedding stakeholders and time frames in the board-issued statement of purpose, investors can more easily connect purpose to long-term capital allocation and strategy. The best way to generate long-term value for shareholders is for the board to publish the company's purpose, something which is fully in line with directors' fiduciary duty.

Once the statement is published by the board, its task then is to oversee the fulfilment of the corporation's stated purpose.





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